

## Rating Rationale

Shri Govindaraja Textiles Private Limited (SGTPL)

5<sup>th</sup> Oct 2017

Brickwork Ratings reaffirms “BWR BBB/ A3” for the bank loan facilities of Rs 707.06 Crs of Shri Govindaraja Textiles Private Limited (SGTPL or the ‘Company’)

### Particulars:

Facilities	Amount (Rs Crs)	Amount (Rs Crs)	Tenure	Rating <sup>^</sup>	
	Previous	Present#		Previous [Apr 2016]	Present
<b>Fund based Limits:</b> Cash Credit Term Loans O/S*	431.84 271.35	319.00 189.48	Long term	BWR BBB (Outlook: Stable)	<b>BWR BBB</b> [Pronounced BWR Triple B] <b>(Outlook: Stable)</b> <b>Reaffirmed</b>
<b>Fund based Limits:</b> FDB/FBE <b>Non Fund based Limits:</b> Bank Guarantee	50.00 3.33	45.50 153.08	Short term	BWR A3	<b>BWR A3</b> [Pronounced BWR A Three] <b>Reaffirmed</b>
<b>Total</b>	<b>756.52</b>	<b>707.06</b>	<b>INR Seven Hundred and Seven Crores and Six Lakhs Only</b>		

#Annexure I shows details of bank loan facilities

<sup>^</sup>For definitions of the rating symbol please visit our website [www.brickworkratings.com](http://www.brickworkratings.com)

### Ratings Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY16, provisional financials for FY17, publicly available information and information / clarifications provided by the Company’s management.

The rating reaffirmation draws strength from the experience of promoters, long track record of business operations in in spinning & textile industry, long standing relationships with domestic and export buyers, successful project execution of the open ended spinning unit in the USA, and satisfactory financial risk profile marked by strong net worth and modest debt protection metrics. The ratings continue to be constrained by vulnerability of its profit margins to volatility in raw material prices, high inventory levels resulting in stretched working capital cycle and operations in intensely competitive textile industry.



Going forward, ability of the Company to achieve the projected turnover and profitability, manage raw material prices, improve liquidity & overall credit profile and manage the working capital efficiently will be the key rating sensitivities.

### **Rating Outlook: Stable**

BWR believes **Shri Govindaraja Textiles Private Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

### **Key rating drivers**

#### **Credit Strengths**

**Experience of promoters and long track record of business operations-** The management is highly experienced in the textile industry and the Company has a strong operational track record in spinning & textile industry.

**Satisfactory financial profile-** The Company's financial performance was satisfactory in FY17 as seen in strong net worth and modest debt protection metrics.

**Long standing customer relationships-** The Company has long standing relations with its domestic and export buyers.

**Successful commencement of operations of the expansion project in the name of SGRTEX LLC, USA-** The Company has set up SGRTEX LLC (a wholly owned subsidiary) located in Eden, North Carolina, which runs an open end yarn manufacturing facility with fully automated Open End spinning plant having 16 Schlafost Auto Coro AC 08 Open End machines (each with 552 Rotors), which has a production capacity of 80 Metric Tons a day.

#### **Credit weaknesses**

**Vulnerability of its profit margins to volatility in raw material prices-** The Company is exposed to the risks relating to the highly volatile cotton prices, which may pressure margins.

**Working capital intensive operations-** The Company has to maintain high levels of inventory compulsorily owing to the nature of the textile business, which has resulted in stretched operating cycle.

**Intense competition-** The Company operates in an intensely competitive textile industry.

#### **Analytical approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale)



### **About the Company**

Incorporated in 1999 at Aruppukottai (Tamil Nadu), SGTPL manufactures cotton, viscose and polyester-blended cotton yarn used for knitting and weaving. The company is promoted by Mr. T R Varadarajan and the day-to-day operations are currently being managed by its managing director, Mr. Ramkumar Varadarajan. It has a total installed capacity of about 3.3 lakh Spindles, ~8400 Rotors, 24 Looms and 6 Wind mills (5.4 MW) across 14 plants located at Pulivendula (AP), Madurai (TN) and Aruppukottai (TN). The capacity utilization is presently at ~ 98%. Domestic sales contributed 78% to total revenues in FY17 followed by Export sales to various countries such as Belgium, Korea, Italy and China (22%).

The company has recently set up an open-ended (OE) spinning unit at Eden City, North Carolina, USA under the aegis of its wholly-owned subsidiary, SGRTEX LLC [rated BWR BBB- (Stable)]. SGRTEX LLC is a fully automated Open End spinning plant having 16 Schlafhorst Auto Coro AC 08 Open End machines (each with 552 Rotors), which has a production capacity of 80 Metric Tons a day. The LLC is producing Yarn Counts ranging from Ne 10s to Ne 30s in both Weaving and Knitting packed in pallets and boxes. The plant uses 100% Contamination Free USA Virgin cotton and the consumption is about 90,000 Kgs (200,000 Lbs.) per day.

Mr. T.R.Varadarajan is the Chairman. Mr.T R V Ramkumar is the Managing Director. Mrs.Chempakadevi and Mrs. Suhasini Ramkumar are the other Directors. All the Directors have vast experience in the textile and spinning industry.

### **Financial Performance**

Total operating income improved to Rs 788.12 Crs in FY17 (Provisional) from Rs 748.94 Crs in FY16 (Audited), on account of higher export and domestic orders. PAT also improved to Rs 1.53 Crs in FY17 from Rs 1.21 Crs in FY16. Tangible net worth stood at Rs 796.77 Crs as on March 31, 2017 (Provisional). Total debt stood at Rs 960.40 Crs as on March 31, 2017 (Provisional). Long term borrowings of Rs 511.15 Crs in FY17 comprised of term loans from Banks & FIs of Rs 256.31 Crs, Hire Purchase loans from Banks/ FIs of Rs 1.15 Crs and interest free unsecured loans from promoters of Rs 253.68 Crs. Short term borrowings of Rs 387.30 Crs in FY17 comprised of working capital limits from banks. Non-current investments of Rs 81.28 Crs in FY17 mainly comprised of investment in equity shares of wholly owned subsidiary SGRTEX LLC, USA. The debt protection metrics were moderate.

On an unaudited basis, the Company has reported net revenues of Rs 172.43 Crs for Q1FY18

The Key Financial parameters are summarized in Annexure II.

**Status of non-cooperation with other CRA:** CRISIL has suspended its ratings on the bank facilities of Shri Govindaraja Textiles Private Limited (SGTPL; part of the Shri Govindaraja group) via their press release dated 24<sup>th</sup> June 2016. The suspension of ratings was on account of non-cooperation by SGTPL with CRISIL's efforts to undertake a review of the ratings outstanding.

**Any other information:** Not applicable

**Rating History for the last three years:**

Sl. No.	Instrument/ Facility	Current Rating (2017)			Rating History		
		Tenure	Amount (Rs Crs)	Rating	9-Aug-2017*	19-Apr-2016**	2015
1.	Fund based	Long term	508.48	BWR BBB (Outlook: stable)  Reaffirmed	Rating Not Reviewed	BWR BBB (Outlook: stable)  Assigned	-
2.	Fund based/Non Fund based	Short term	198.58	BWR A3  Reaffirmed	Rating Not Reviewed	BWR A3  Assigned	-
	<b>Total</b>		<b>707.06</b>	<b>INR Seven Hundred and Seven Crores and Six Lakhs Only</b>			

\*Amount rated: Rs 756.52 Crs

\*\*Amount rated: Rs 756.52 Crs

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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**Shri Govindaraja Textiles Private Limited (SGTPL)**

**Annexure I: Details of the Bank Loan facilities rated**

<b>Bank Name</b>	<b>Cash Credit (Rs Crs)</b>	<b>O/S Term loans (Rs Crs)</b>	<b>FDB/FBE (Rs Crs)</b>	<b>Bank Guarantee (Rs Crs)</b>	<b>Total (Rs Crs)</b>
Canara Bank, Lead Bank of the Consortium	81.50	35.63	25.00	150.48	292.61
Indian Bank	135.00	30.15	15.00	2.60	182.75
SBI- Madurai	53.00	0.19	-	-	53.19
LVB	49.50	-	5.50	-	55.00
CUB -Madurai (Take over from IDBI)	-	7.01	-	-	7.01
KVB	-	30.91	-	-	30.91
BOM	-	24.82	-	-	24.82
OBC	-	25.05	-	-	25.05
Syndicate	-	22.51	-	-	22.51
SBI-APK	-	13.21	-	-	13.21
<b>Total</b>	<b>319.00</b>	<b>189.48</b>	<b>45.50</b>	<b>153.08</b>	<b>707.06</b>

**Shri Govindaraja Textiles Private Limited (SGTPL)**

**Annexure II: Key Financial Parameters**

<b>Particulars</b>	<b>31/Mar/2015</b>	<b>31/Mar/2016</b>
<b>Result Type</b>	<b>Audited</b>	<b>Audited</b>
Total operating income (Rs Crs)	<b>862.02</b>	<b>748.94</b>
EBITDA (Rs Crs)	183.79	112.42
PAT (Rs Crs)	16.10	1.21
Tangible Net Worth (Rs Crs)	518.56	794.65
Total Debt/TNW (Times)	1.75	1.18
Current Ratio (Times)	1.17	1.20

**For print and digital media**

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

**DISCLAIMER**

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